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The President's Daily Brief

March 1, 1974

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FOR THE PRESIDENT ONLY

THE PRESIDENT'S DAILY BRIEF

March 1, 1974

PRINCIPAL DEVELOPMENTS

Still incomplete returns in Britain indicate that the Labor Party may have some chance of forming the next government. (Page 1)

Resignation of the Italian treasury minister, head of the smallest party in Prime Minister Rumor's coalition, does not necessarily mean that the government will fall. (Page 2)

Ethiopian military dissidence is continuing despite the Emperor's efforts to head it off. (Page 3)

Divisions among the leadership over trade policy have not deterred the Chinese from negotiating substantial purchases of foreign technology. (Page 4)

The Soviets may want to discuss with the US possible naval limitations in the Indian Ocean. (Page 5)

The Khmer Communists may be unable to mount another major attack in the Phnom Penh area in the near future. (Page 6)

25X1

Egypt

(Page 7)

25X1

Pakistan is planning to increase its military training missions to several Arab states in return for money to expand Pakistan's defense industry. (Page 8)

The Chinese

(Page 9)

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25X1

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UK

Harold Wilson and his Labor Party appear to have some chance of forming a government after yesterday's national elections.

Counting in 442 of parliament's 635 districts has been completed, showing the Labor Party with 255 seats and the Conservatives with 177. The Liberals have won five seats, while an assortment of minor parties together have won the same number.

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Ballot counting in the remaining 193 districts will begin this morning. Most of these traditionally vote Conservative. Wilson must capture about a third of these seats to win an absolute majority in parliament. Most pollsters are predicting that he will fall about ten seats short. Their projections also question whether the Liberals can win enough seats to permit a majority coalition of Conservatives and Liberals.

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ITALY

Ugo La Malfa's resignation as treasury minister and leader of the Republican Party will not necessarily topple Prime Minister Rumor's center-left government. Even without the support of the Republicans--the smallest party in the coalition--the three remaining parties would have solid majorities in both houses of parliament.

The Republican Party's central committee will meet today and may elect to stay in the government under a new party leader. Alternatively, the party may decide, as it did in 1971, to leave the government but to continue supporting it in parliament.

La Malfa's resignation came after a bitter dispute with the Socialists over the terms of a \$1.2-billion loan he had negotiated with the International Monetary Fund. The Socialists grudgingly accepted the terms of the loan yesterday, but insisted on a public statement that they had been forced to comply in the interest of coalition unity. At this, La Malfa abruptly resigned.

La Malfa's resignation will strain the cohesion of Rumor's government, but there is widespread feeling among Italy's leaders that they should not aggravate the country's economic troubles with a political crisis. Even organized labor has emphasized that its nation-wide general strike this week was not intended to bring the government down.

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ETHIOPIA

Ethiopian troops in sympathy with the dissident soldiers in Asmara are now firmly in control of major installations in Addis Ababa. They are seeking out and arresting former ministers and other key officials of the dismissed government, although still proclaiming loyalty to the Emperor. Troops in Asmara are also demanding the prosecution of former officials for alleged corruption.

The new civilian and military appointments announced yesterday show that Haile Selassie is trying to reach some accommodation with dissident troops. It is not yet certain whether the dissidents will accept the new appointees. The Emperor also announced an increase in military pay and allowances, although it falls short of the dissidents' demands.

The new officials are likely to be more reform-minded than their predecessors. Endalkatchew Makonnen, the new prime minister, is a conservative in Ethiopian terms, but is considerably younger and probably more politically alert than former prime minister Aklilu. Even so, the new prime minister may be too closely identified with the conservative hierarchy and the discredited former cabinet, in which he held a portfolio, to win the dissidents' confidence.

Lieutenant General Abiye, the new defense minister, is a progressive who has urged faster implementation of reforms. Although loyal to the Emperor, he has in the past reportedly tried to impress Haile Selassie with the need for a less personal form of government.

Junior and middle-level officers are apparently beginning to move to the forefront of the revolt. The officers are still willing to accept a civilian government, but they are determined to secure the appointment of ministers committed to progressive reforms. They will probably attempt to establish greater unity among themselves and seek support from discontented civilians.

The officers and enlisted men, and probably most of the civilians, remain loyal to the Emperor, but they seem determined to ensure that the government be placed in the hands of officials chosen more for their competence than for their loyalty to the crown.

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CHINA

Despite apparent divisions in the leadership over foreign trade policy, China is continuing to negotiate substantial purchases of foreign technology and whole plants.

The degree and type of contact between China and the West has seemed to be one of the issues debated in the current anti-Confucius campaign. One line of argument favors the continuation and perhaps expansion of imports of technology, which began to increase rapidly about two years ago. An opposing line seems to advocate a return to greater self-sufficiency in economic development, attacking China's increasing technological imports as "letting the wolf into the room." The former view is the prevailing one, and the policy thus far shows no signs of changing.

During the first two months of this year, China purchased whole plants from Japan and Western Europe worth about \$200 million, including a French fertilizer plant that alone is worth some \$120 million. If this trend continues, total plant purchases in 1974 will equal last year's record of \$1.2 billion.

The Chinese are also nearing final agreement on the purchase of a \$202-million steel complex from a Japanese consortium

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Meanwhile, the Chinese are discussing with Japanese and American firms the purchase of a wide range of technology and equipment for the production of petroleum and chemicals.

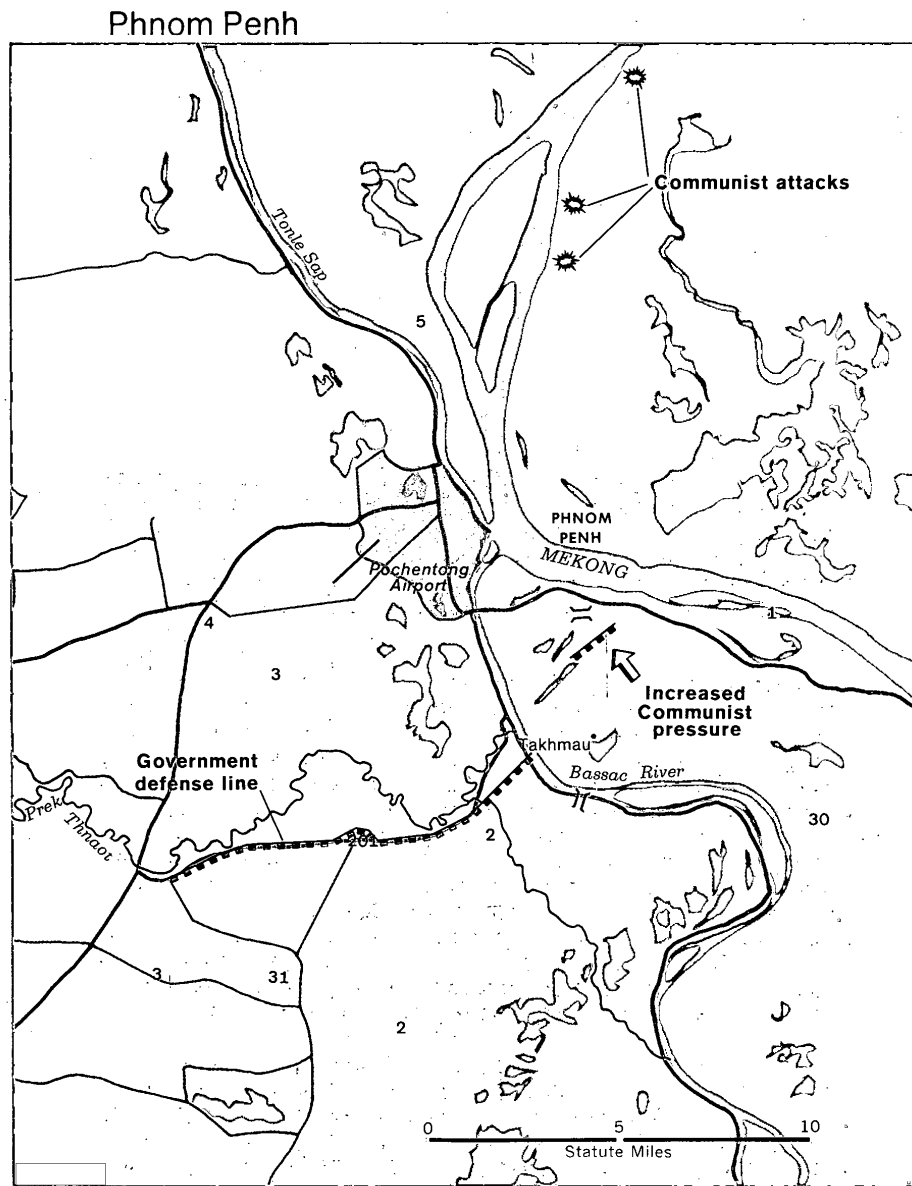
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USSR

Yury Arbatov, the director of Moscow's USA institute, recently suggested to a group of visiting White House Fellows that the US and USSR get together to discuss possible naval limitations in the Indian Ocean. He referred to General Secretary Brezhnev's speech in 1971 calling for limits by the two powers on naval deployments far from their shores.

In that speech Brezhnev put on record an idea that was earlier broached by Soviet officials in Washington, evidently in reaction to the announcement in late 1970 that the US was building a communications facility on Diego Garcia. Moscow failed, however, to pursue the naval limitations idea any further at that time.

Arbatov's remarks may have been an intentional overture for negotiations on US plans to expand the Diego Garcia base, but there was little sign of a negotiating mood in the authoritative Pravda "Observer" article published on February 27. The article played up the "threat" posed by the base to the Indian Ocean's littoral countries, and of course rejected assertions that Soviet naval activities provide a rationale for increased US activity in the area. The article, which apparently had high-level authorization, referred to Brezhnev's support for the amorphous idea of an "Indian Ocean zone of peace," but made no reference to his call for limiting naval deployments.



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CAMBODIA

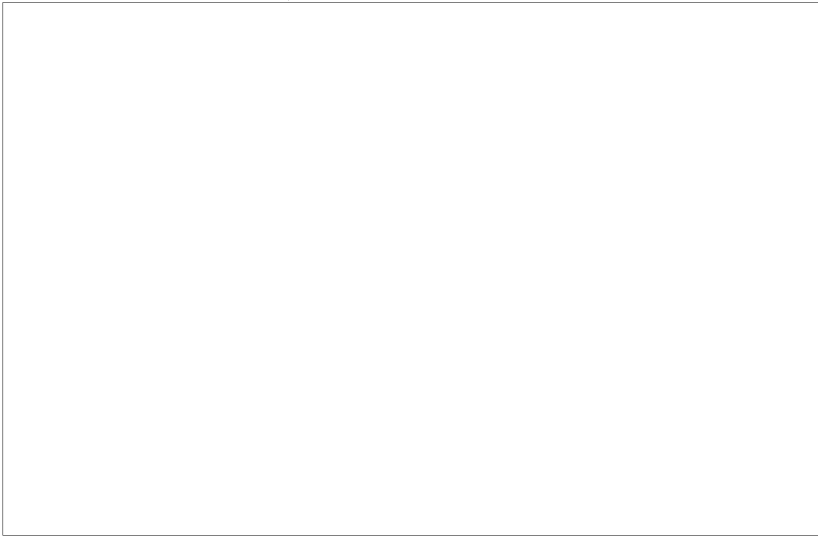
There are increasing signs that the Khmer Communists may be unable to mount another major offensive in the Phnom Penh area in the near future. The Communists have had only limited success in carrying out a series of attacks that they had scheduled to begin around February 25.

While government forces, for the most part, have been reacting to Communist initiatives, they have been getting the best of the fighting since mid-January. It may take the Communists some time to recoup their losses. Reinforcements apparently are en route to the northwestern front, but they may not be enough to offset the cumulative effect of battlefield casualties, sickness, and desertions. The Communists' casualties have not been as extensive south of Phnom Penh, but many of their units in this area saw heavy combat elsewhere last fall. The insurgents can probably replace the materiel lost and expended during the past two months, but it may take some time to stockpile new munitions near the front lines.

The Communists must also overcome deficiencies in tactical coordination that continue to plague them. In addition, they may soon have to divert some of their forces now concentrated in the Phnom Penh area to nearby provinces, where aggressive local government forces have made significant gains.

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EGYPT



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PAKISTAN - ARAB STATES

Pakistan will increase the size of its military training teams in Libya, Saudi Arabia, and Kuwait

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Islamabad will also increase the number of training slots in Pakistani military schools available to the three countries. In addition, Pakistan has agreed to provide military training assistance to several African countries, with the costs being met by Saudi Arabia and Libya.

In return, the Arab countries will finance the expansion of Pakistan's defense production capabilities. Prime Minister Bhutto first hinted at the possibility of Arab money for Pakistan's defense industry in mid-December. Since then, press reports have described a three-way deal whereby Arab oil money would finance arms production facilities utilizing French technology. There is no evidence to indicate that Paris is directly involved, but the Pakistanis have been seeking rights to produce sophisticated French weaponry, including Mirage aircraft, for some time.

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